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CONTENTS

	Page
The Bankers' and Industrialists' Manifesto	207
Post-War European Tariff Walls	208
Extreme Protectionist Countries	209
High Protectionist Countries	210
Moderate Protectionist Countries	211
Low Tariff Countries	213
Attempts to Modify Competitive Tariffs in Europe	214
Tariff Policies of the United States	215
Fordney-McCumber Tariff	215
The American Tariff Paradox	215
The American Tariff and International Payments	216
The Constitution and the American Tariff	216
Text of the Bankers' Manifesto	217

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The International Tariff Problem

THE appeal for the removal of restrictions upon European trade made public on October 19 by 165 leading bankers and industrialists of fifteen different countries including the United States has profoundly stirred public opinion in Europe and America. The bankers' manifesto pleads for the removal of "tariff barriers, special licenses and prohibitions," and declares that "there can be no recovery in Europe until politicians in all territories, old and new, realize that trade is not war, but a process of exchange; that in time of peace our neighbors are our customers; and that their prosperity is a condition of our own well-being."

The war and its aftermath ushered in a new era of intensified tariff protection and governmental control over the currents of world trade. The shifting of political boundaries in Europe and the abrogation of long-standing commercial treaties disrupted the trade relations which had formed the basis of European commercial life previous to the war. The creation of new political institutions out of the territories of the former Russian and Austro-Hungarian empires

resulted in the erection of customs walls between areas hitherto forming an unrestricted economic whole. The depreciation of the exchanges and the "unfavorable" trade balances which have characterized economic conditions in European countries since the war further stimulated protective and restrictive legislation. These measures were fostered by the spirit of extreme nationalism and the desire for economic self-sufficiency which has spread both in Europe and America since Versailles. The result of these tariffs and restrictions is pictured in the bankers' manifesto as follows:

"One State lost its supplies of cheap food, another its supplies of cheap manufactures, industry suffered for want of coal, factories for want of raw materials. Behind the customs barriers new local industries were started with no real economic foundation which could only be kept alive in the face of competition by raising the barriers higher still. Railway rates, dictated by political considerations, have made transit and freights difficult and costly. Prices have risen, artificial dearthness has been created, production as a whole has been diminished. Credit is contracted and currency has depreciated. Too many states in pursuit of false ideals of national interest have imperilled their own welfare and lost sight of

the common interests of the world by basing their commercial relations on the economic folly which treats all trading as a form of war."

Certainly no unofficial pronouncement could carry a greater weight of authority than this appeal by 165 leaders of industry and finance in Austria, Belgium, Czechoslovakia, Denmark, France, Germany, Great Britain, Holland, Hungary, Italy, Norway, Poland, Rumania, Sweden, Switzerland and the United States. Included among its signers are such outstanding international leaders as the executive heads of several of the state banks of Europe, headed by Montagu Norman, Governor of the Bank of England, and Dr. Schacht, President of the German Reichsbank. The American signers to the manifesto are Gates W. McGarrah, New York banker; J. J. Mitchell, President of the Illinois Merchants Trust Co., Chicago; J. P. Morgan, of J. P. Morgan & Co., New York; Thomas N. Perkins, member of the Reparations Commission; Melvin A. Traylor, President of the First National Bank, Chicago; and Albert H. Wiggin, President of the Chase National Bank.

The appeal itself makes no reference to the tariff policy of the United States, and Secretary Mellon and President Coolidge have both been careful to point out that it was intended to apply to Europe alone. However, the fact that such a vigorous indictment of the tariff policy of Europe was signed by this group of influential Americans, inevitably raises the question of the wisdom of the policy of high protection to which the United States is at present committed. It has been forcefully argued that Americans can not advocate for Europe policies which they are unwilling to apply to their own country. Whatever may be the merit in either of these points of view, the issue so forcefully stated is likely to occupy a prominent place in public discussion for some time.

EUROPEAN TARIFF WALLS

There are several types of trade restrictions which have characterized the commercial policy of European countries since the war and to which the bankers' manifesto is addressed. These may be briefly summarized under four main heads:

1. An increase in the tariff rates on imported commodities;
2. Import and export restrictions in the form of total prohibitions, contingents or government licensing systems;
3. Retaliatory legislation, anti-dumping duties, depreciated currency surtaxes, preferential railroad and transportation rates;
4. The refusal in many cases of European governments to restore the basic commercial treaty relations which existed previous to the war.

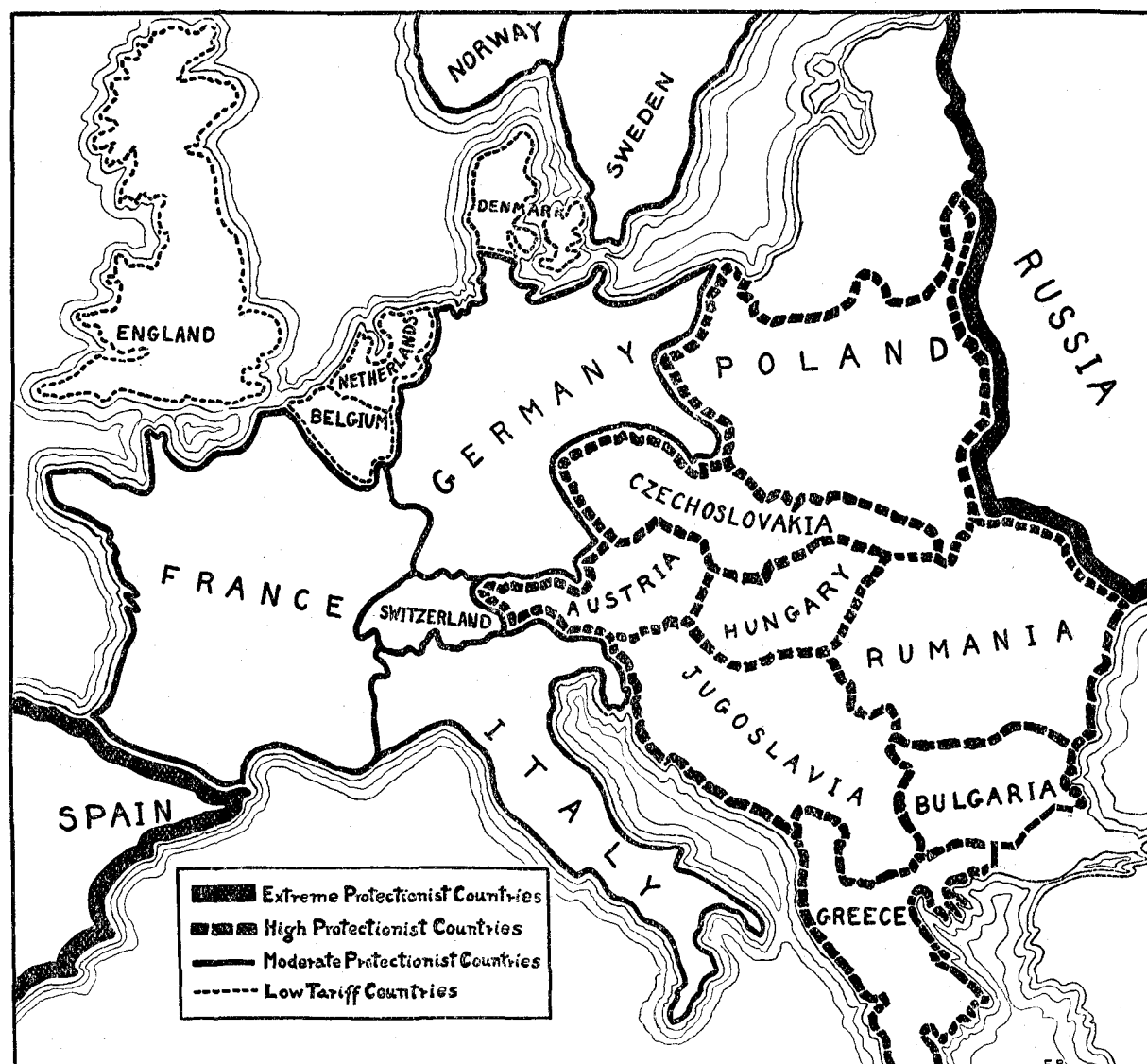
The accompanying map which is based upon a series of index numbers prepared by Sir Clive Morrison Bell and designed to show the comparative height of the tariff walls in various sections of Europe, reveals two outstanding features of European commercial relations:

1. The falling range of tariffs as one proceeds from East to West, starting with the Himalayan barricades of Russia down to the moderate tariff barriers of the maritime countries of Western Europe; (Spain excluded), and
2. The dense crowding of high tariff walls in the central section around comparatively small areas which are obviously quite unsuited to be regarded as complete economic units.

For the purposes of this report the countries of western Europe are divided into four main categories corresponding to the height of their tariff duties and the import and export restrictions imposed upon trade. These four categories include:

1. The extreme protectionist countries, consisting of Russia and Spain;
2. High protectionist countries, under which are classified Austria, Rumania, Bulgaria, Yugoslavia, Czechoslovakia, Hungary, Poland, and Greece;
3. Moderate protectionist countries, consisting of France, Germany, Scandinavia, Switzerland and Italy.
4. Low tariff countries made up of Great Britain, Netherlands, Denmark, Belgium and Portugal.

In the following treatment of the tariff policy of the several European countries an attempt has been made to give a rough picture of the post-war tariff legislation in Europe.



Prepared by the Foreign Policy Association

EUROPEAN TARIFF WALLS

EXTREME PROTECTIONIST COUNTRIES

UNION OF SOVIET SOCIALIST REPUBLICS: The foreign trade of the Soviet Union is a state monopoly which is entrusted to the People's Commissariat for Foreign Trade, and private firms can only participate in foreign trade operations on compliance with prescribed formalities. Foreign trade is regulated, first, by "contingents" of import and export, and secondly, by the prohibition, except under license, of foreign trade operations. The quantities (contingents) of the principal goods which may be imported are fixed quarterly and divided among state institutions, cooperative organizations, mixed companies and other bodies having the right to transact foreign trade operations. At the same time the authorities fix the countries

from which the imported goods are to be brought. Purchases abroad may only take place by virtue of special permits (in the case of purchases by the state contracting office) or of special license (in other cases), and licenses are only issued by the Commissariat for Foreign Trade after very careful scrutiny. The trade representatives of the Soviet Union abroad are authorized to issue licenses independently for the import of goods within the limit of the contingents allotted to them.

The Soviet tariff was passed on February 4, 1922, and the export duties became effective June 13, 1922. The export tariff was revised on January 1, 1923. The schedule of dutiable export comprised

twenty-five items consisting of meats and meat products, wood products and a long list of raw materials.

SPAIN: The Spanish tariff law of 1906 provided that the rates of import duties should be revised every five years. This revision was made in 1911, but owing to the war it was not revised again until 1922. This law continues the form of a maximum and minimum tariff. The maximum tariff is exceedingly high and applies to all countries which do not conclude commercial agreements with Spain granting reciprocal concessions to Spanish products. Previous

to enacting the new law, Spain abrogated most of her commercial treaties intending later to open negotiations for concessions on the new basis, but up to the present time very few treaties have been negotiated and as a consequence, the maximum tariff applies to the products of most foreign countries. Spain levies depreciated currency surtaxes in addition to the ordinary customs duties on all goods from Brazil, Bulgaria, Czechoslovakia, Finland, Greece, Hungary, Portugal, Rumania and Turkey. German goods imported into Spain are also in some instance discriminated against.

HIGH PROTECTIONIST COUNTRIES

AUSTRIA: In addition to a high protective tariff, Austria maintains a system of import restrictions. The list of goods subject to import license requirement includes specified articles from the groups relating to fruits, food-stuffs and beverages, textile manufactories and made up articles, china and earthenware, iron and other common metalwares, machinery, apparatus and vehicles, chemicals and varnishes, and perfumery. There are import "contingent" arrangements with France and Belgium, and under a commercial treaty with Italy it is provided that a few Italian products (lemons, chestnuts, almonds, olive oil, etc.) are to be admitted into Austria from Italy without any restriction. Austria also has a "most-favored-nation" treaty with Great Britain.

RUMANIA: The Rumanian customs tariff which became effective in July 1921 increased the specific rates of duties in general to between ten and twelve times the pre-war rates. When allowances are made for the currency conditions, these new duties were somewhat in excess of pre-war rates, although certain products, especially those of the woolen and iron industries, were given increased protection. In 1922 a decree increased the duties on certain imports. In addition to the tariff duties there is a general surtax on the official evaluation of imported articles, and consumption taxes apply to a large number of imported products, and various articles of luxury are subject to tax at least to the amount of the

tariff duties. There also is a list of goods which are subject to an absolute prohibition of import, no import licenses whatever being issued for such goods. This list includes, among other things, certain kinds of carpets and shawls, wines, liqueurs and fermented drinks, perfumery articles, precious stones, music boxes, fine footwear, etc.

BULGARIA: By a law passed in 1919 tariff duties were doubled in Bulgaria and in 1921 they were again doubled. By the law of April 11, 1922, the specific duties of the previous tariff acts were retained and where *ad valorem* duties are prescribed the freightage cost to the Bulgarian frontier is included with the invoice price. The law also increased the number of goods subject to tariff and the duties everywhere represent considerable increases over previous rates—frequently very great increases—and goods formerly duty-free are now taxed. There is still, however, an extensive series of goods exempt from duty, or nominally so, for even upon these a 3 per cent duty is levied. These goods are the absolutely indispensable imports, such as raw materials, agricultural machinery and certain chemicals and fertilizers. Articles of luxury, such as perfumery and fermented drinks, carry very high duties. A special tariff exists for exports, which was lowered somewhat in June 1921. By the law of January 1924, the Bulgarian government placed an absolute restriction upon the import of some 150 categories of goods regarded as not of first necessity. This list included various food-

products and beverages, perfumery, glass and pottery, paper, leather, rubberwear and other miscellaneous articles.

JUGOSLAVIA: Early in 1921 customs duties were levied at the tariff rate, plus a premium of 100 per cent, with a surtax of 10 per cent *ad valorem* on luxury articles. In addition an amount equivalent to the customs duty was levied as a tax on turnover. In July 1921 a new tariff was published which again raised the scale of duties. Provision was also made for the application by the Minister of Finance and Commerce for supplementary duties in case of "dumping" or of importation from countries with depreciated currency, and the premium was raised 500 per cent in view of the progressive depreciation of the exchange. The export tariff of February 1922 contained a long list of prohibited exports, but this was later repealed with the exception of a few commodities.

CZECHOSLOVAKIA: From the beginning of its existence as an independent state, Czechoslovakia adopted in regard to import control a policy of protection of national industries. Foreign import trade was subjected to severe restrictions until the latter part of 1923 when a more liberal policy was adopted. From that date, various orders have been issued exempting many classes of goods from import license requirement, and allowing the importation of many other articles upon the basis of a special declaration by the importer which is a mere formality without restrictive effect on trade. The importation of comparatively few goods is controlled by

the import license system. Czechoslovakia has also negotiated several commercial treaties which in a measure mitigate the high protective rates. A law increasing the tariff duties and providing for the absolute prohibition of certain imported commodities was passed shortly after the war. By the law of 1924, however, these import restrictions were partially abolished, but at the same time tariff duties were increased. In January 1925 the tariff duties were again considerably increased, and all the remaining import restrictions were abolished.

GREECE: The Tariff Act of August 3, 1922 provided for an extensive increase of customs duties by the levying of surtaxes ranging from 10 to 20 per cent of the estimated value of imported goods, and by imposing "coefficients of increase" on certain articles of luxury, and by other arrangements for taking account of the currency fluctuations. Greece has negotiated a few commercial treaties which give a lower rate to certain countries.

POLAND: The commercial policy of Poland has been largely dictated by her financial situation and has therefore been restrictive. Tariff rates are high and until very recently many government restrictions controlled private commercial transactions. By degrees these restrictions are being removed and Poland has at present only a small list of import prohibited goods. Poland has recently been carrying on a tariff war with Germany and has negotiated commercial treaties with Finland and Belgium.

MODERATE PROTECTIONIST COUNTRIES

FRANCE: The object of post-war French tariff legislation was the desire to counteract the effect of the depreciation of currency in the exporting countries, particularly Germany, and the Tariff Act of 1921 raised the general rates of duty on a large number of articles. The general tariff bill, which was passed in 1923, had as its purpose the equalizing of conditions in domestic and foreign cost of production. France has more recently put in force a very short list of import prohibitions. In general France has followed

her pre-war policy of a moderate protective tariff with commercial agreements which on a great many commodities practically assure freedom of trade. The most important recent change in the French tariff was the conclusion of the Franco-German commercial treaty on August 5 which grants most-favored-nation treatment to a large number of commodities imported from Germany in return for concessions on the part of Germany. France also has a series of commercial treaties with the Balkan states.

GERMANY: The ability of Germany to make tariff changes was greatly curtailed by the provisions of the Treaty of Versailles. The principal changes after the Armistice were the withdrawal of certain conventional rates resulting from the abrogation of certain commercial treaties, increases in duty on tobacco and alcohol products, and provisions for the payment of duty in paper currency at varying rates of exchange. Effective protection was also provided by excluding all manufactured imports except such as representatives of German industrialists were willing to see admitted. A system of export duties was introduced in connection with the governmental control of foreign trade. In May 1923, the export price controlled export duties and the licensing of a number of German classes and German goods was abolished with the provision that export prices must be quoted in high exchange currency, and at least 40 per cent of the resulting credit must be surrendered to the Reichsbank which in turn reimbursed the exporters in paper marks. In April 1922 the Reichstag amended the German tariff by increasing the duty on a large number of commodities. In many cases the duties were doubled and, in the case of certain tropical products, were advanced even higher. In general it may be said that Germany is furthering its pre-war policy of protection with, however, a system of commercial treaties guaranteeing freer trade relations.

The German government has maintained a system of import restrictions, however, since the war which has resulted in considerable negotiation with Great Britain. While these import restrictions have never been repealed, the Anglo-German commercial treaty of December 1924, and the Franco-German commercial treaty of August 5, 1926, have liberalized that portion of the law considerably.

SCANDINAVIAN COUNTRIES: The countries of Norway and Sweden went over to the protectionist system in the early part of the twentieth century. Although these countries have never resorted to extreme protection, the general tendency since the war has been

toward a considerable increase in tariff duties. In Norway the tariff duties were increased twice in 1922, and likewise increased by two separate acts in 1923. In Sweden a tariff act carrying increases in import duties on luxury goods became effective in 1921, and in 1922 this legislation was further supplemented by an increase to as high as five times the former rates on luxury items. In neither Norway nor Sweden are there any restrictions on importations.

SWITZERLAND: Before the war the Swiss tariff system was based partly upon the principle of protection and partly upon the principle of high rates for advantageous negotiation of numerous tariff treaties with other countries. After the war considerable increases were made in tariff rates amounting in some cases to 300 per cent, and certain retaliatory provisions were included in the law directed at the countries discriminating against Swiss products. In 1921 a decree of the Swiss Federal Assembly authorized the Federal Council temporarily and provisionally to restrict the importation of certain goods or to subject their importation to import license. This provision was continued in force until March of the present year as a matter of policy. Switzerland has been fairly free in granting import licenses. The Swiss import restrictions have been imposed in order to prevent the country from being flooded with goods from countries with a depreciated exchange, and therefore they must be regarded as only temporary measures.

ITALY: The Italian tariff has been increased several times since the war. Protection has been granted to the manufacturers of motor vehicles and tractors and certain conventional rates were withdrawn as the result of the abrogation of commercial treaties. The depreciation of the lira was met by means of arbitrary surtaxes as rates were proclaimed from time to time. The general principle of the post-war Italian tariff is a general increase in import duty on commodities imported from countries which have failed to negotiate commercial agreements with Italy.

LOW TARIFF COUNTRIES

GREAT BRITAIN: Great Britain is, of course, the traditional country of free trade. In 1853 and 1860 free trade was fully adopted in the sense that protective tariffs were discontinued and a purely fiscal tariff for revenue only maintained on such articles as tea, tobacco, liquors, coffee, etc. The protectionist sentiment in Great Britain, however, was greatly stimulated by the world war because of the difficulties relative to industrial and military preparedness. In 1916 the subject of special encouragement for certain industries on account of their war necessity received considerable attention. In 1915 a duty of 33 $\frac{1}{3}$ % per cent *ad valorem* on passenger automobiles, watches and clocks, and all musical instruments was passed because of the desire to discourage the importation of luxuries and non-essential commodities, owing to the shortage of tonnage for shipping purposes during the war. In 1920 and 1921 a law was passed protecting the dye stuff industry by prohibiting the importation of certain dye stuffs except under license to be issued by special permission.

At about the same time the "Safeguarding of British Industries" Act was passed which provides for the imposition of a duty of 33 $\frac{1}{3}$ % per cent *ad valorem* on the products of so-called "key" industries. Since these imports constitute less than one per cent of Great Britain's total imports, it is of relatively small importance. The same law included also an anti-dumping provision and authorized the imposition of a duty up to 33 $\frac{1}{3}$ % per cent *ad valorem* on goods other than food or drink or the products of any part of the British Empire, which are sold or offered for sale in the United Kingdom at prices below cost of production, or at prices which by reason of the depreciation of the currency of the country of origin are below the prices at which similar goods may be manufactured in the United Kingdom. The invocation of these export duties was placed in the hands of the British Board of Trade, and for the most part there has been no occasion for their use. British tariff laws have generally allowed for imperial preference. The Conservative Party in 1923 was de-

feated upon the platform of protection, and since that time there has been no serious attempt by Great Britain to go over to the protectionist system.

NETHERLANDS: A long series of tariff legislation extending from 1850 to 1877 practically put Holland upon a free trade basis. Holland has never resorted to import restrictions and the rates which have been maintained have been largely for revenue purposes.

DENMARK: From 1853 to 1908 Denmark was practically on a tariff for revenue basis. In that year a moderate protective law was passed placing small tariff rates upon the majority of commodities, but leaving the common articles of consumption on the free list. An emergency tariff law was passed in November 1921 covering mainly articles of luxury, and the main features of this emergency tariff were enacted into the permanent law in June 1923. In February 1924 a temporary tariff law was passed with the object of improving the country's trade balance and the exchange value of the currency. Extensive increases were made in the rates on certain commodities. The operation of this law expired in June 1924, leaving Denmark in the classification of low tariff countries.

BELGIUM: Throughout most of its history, Belgium has been a free trade country. Shortly before the war, however, protective legislation was passed as a retaliatory measure against France and other countries. After the European war there was a tendency toward an upward revision of the tariff largely for the purpose of counteracting the effects of the tariff policies of other countries. The Belgian law of June 1920 authorized the government to increase to 300 per cent the specific rates of duty for the period of one year. In 1921 the limit of increase of specific duties was raised to 600 per cent, and the rates of duty on a considerable number of articles were increased under the two laws. In 1923 the Belgian government adopted a policy of a two column tariff with maximum and minimum rates. The maximum rates are made to apply only to those countries which do not accord Bel-

gian products most-favored-nation treatment and which impair Belgian commerce, navigation or industry by import or export prohibition or restrictions or by the application of excessive duties or taxes. The higher rates may also be applied temporarily to goods from countries with depreciated currencies when domestic industries are imperilled by the effects on trade of such depreciation. As a matter of fact, the maximum rates apply to very few cases and in general dutiable rates do not exceed 15 per cent *ad valorem* except on articles of luxury.

PORTUGAL: The principal tariff changes

in Portugal since the war have been exemptions for articles of necessity like food-stuffs and increases of duty or import restrictions on non-essentials or luxuries. In 1921 Portugal also doubled her minimum duties to form a maximum schedule which would be applicable to countries which discriminated against Portuguese products. The tariff was again revised along similar lines in 1923, allowing for the modification of the rates by the Minister of Finance on the recommendation of the Council of Experts for the customs service. Portugal has also maintained export taxes since the war on a very few commodities.

ATTEMPTS TO MODIFY COMPETITIVE TARIFFS

THE PAN-EUROPEAN MOVEMENT

The movement for closer cooperation between European countries is represented by two organizations, the Central European Economic Congress which last met in Vienna on September 8 and 9, 1926, and the Pan-European Congress which held its first meeting in Vienna only a fortnight before the bankers' manifesto was made public. While there is disagreement between these two organizations over methods, they are working toward substantially the same goal of closer economic cooperation between the twenty-eight states of Europe, and the freedom of commerce from artificial governmental restraints. The London *Economist* for October 16 has commented editorially upon the Pan-European movement as follows:

"Most economists have pointed out that the present state of extreme protectionism and mutual jealousy in Europe is most harmful for all States concerned. The evil demon of Europe is the exaggerated sense of national prestige and economic independence. Behind all the peaceful declarations of certain statesmen there is a good deal of distrust and even insincerity. Big armies are considered absolute necessities, as well as economic preparedness for war. Therefore, high tariffs are maintained, partly for revenue purposes, partly for making the country independent from abroad, and for enabling the governments to make the consumer pay the bill without his noticing it. A Pan-European Union would certainly be the salvation out of this chaos of economic and moral disintegration and confusion. The most complicated questions of Europe could best be settled among the European

nations themselves, and very far-distant nations of another continent will hardly possess the necessary intimate knowledge, interest, and authority to be of any great service, except perhaps as arbitrators in certain disputes of international right."

While no measurable results have as yet come out of the Pan-European movement, it is significant of an important trend toward the removal of restriction on trade and closer economic cooperation between the several European states.

INTERNATIONAL CHAMBER OF COMMERCE

The Council of the International Chamber of Commerce, at its meeting on June 25 last, adopted a resolution condemning "excessive tariffs and prohibitions on importation and exportation," and appointed a committee to report upon specific measures for the improvement of the commercial situation in Europe. This Committee made the report to the Council of the International Chamber of Commerce at their meeting in Paris on October 20. The Council applauded the bankers' manifesto and adopted the committee report in the form of recommendations to be presented at the next meeting of the Economic Section of the League of Nations and the biennial Congress of the International Chamber of Commerce. The report goes beyond the bankers' manifesto and makes a series of specific recommendations for the reduction of tariff rates and the simplification of customs formalities. It condemns

sudden changes in tariff by executive decree and makes other recommendations against secret discrimination and retaliatory tariff legislation.

THE ECONOMIC COMMITTEE OF THE LEAGUE OF NATIONS

The economic section of the League of Nations has been working for several years upon various aspects of the international

tariff question. A convention for the simplification of customs formalities prepared by the League has already been ratified by a number of states and at its last meeting the Assembly adopted a resolution declaring that commercial relations would be greatly improved by the conclusion of an international convention for the abolition of import and export prohibitions and restrictions.

TARIFF POLICIES OF THE UNITED STATES

THE FORDNEY-McCUMBER TARIFF

The United States was no exception to the general post-war trend toward high protective tariffs. The post-war disorganization of industry combined with the agricultural discontent which followed the deflation of 1920 was largely responsible for the radical revision upward of tariff rates under the Fordney-McCumber Tariff of 1922. In many respects the Fordney-McCumber Tariff is the most drastic protective legislation to which the United States has ever resorted. The outstanding features of the Act of 1922 are:

1. A great increase in the average rate upon dutiable goods;
2. Unusual protection for commodities of certain industries, particularly wool, and agricultural commodities;
3. The embodiment into the law of the principle of the equalization of cost of production. This principle replaced the earlier "infant industry" argument which was the basis of the early protection policy of the United States. The Fordney-McCumber Tariff was the first act to write this principle into the text of the law, and it conferred unusual powers upon the President to raise or lower the rates to equalize costs of production abroad. The extremes to which certain senators were willing to go in following this principle to its logical conclusion was expressed on the Senate floor by Senators Gooding of Idaho and Stanfield of Oregon. Senator Stanfield expressed his willingness to impose a duty as high as 5000 per cent if such rates were necessary for

the purpose of equalizing the cost of production;

4. Under section 317 of the Act, extreme retaliatory powers were conferred upon the President for use in the event of discrimination by foreign countries against the United States. It is significant that while the President was granted these extreme powers of retaliation, no power was given him to grant more favored treatment to a foreign nation by the negotiation of commercial treaties. The anti-dumping sections conferred upon the President authority in extreme cases to restrict completely the imports of the offending countries.

THE AMERICAN TARIFF PARADOX

The United States is in an anomalous position as far as the tariff is concerned. While on the one hand it may be classified with Russia and Spain as one of the leading protectionist countries of the world, on the other hand, it represents within its own boundaries the greatest area which perhaps has ever put into practice the most extreme form of free trade. In fact, certain observers have pointed out that the whole American economic system, which is based upon mass production, would have been impossible had it not been for the unrestricted domestic market. Secretary Mellon in a press release for Monday, October 25, uses this fact to explain the inapplicability of the bankers' tariff manifesto to conditions in the United States as follows:

"The situation in Europe since the war is different from the situation in America. The two would only become comparable if we should

consider each of the forty-eight states a separate nation, each having its own tariff, its own railroads, its own currency and its own language. Under such conditions, the industrial power of the United States would end. What the plea of the bankers seeks to accomplish in its final analysis is not a change in the world but to bring about in Europe a condition similar to that in the United States. It is not criticism of us, but emulation."

It is argued by other observers, however, that the conditions provided by unrestricted markets resulting from the free trade areas between the states of the American union is convincing proof of the desirability of the application of the same economic principle to the international tariff relations of the United States.

THE AMERICAN TARIFF AND INTERNATIONAL PAYMENTS

The charge of inconsistency has often been made against the policy of the United States in insisting upon the collection of the inter-allied debts and at the same time maintaining a high protective tariff. These critics of American policy point out that under the debt-funding agreements, the United States is due to receive annual payments averaging from \$233,000,000 for the first ten years of the agreements to an average of \$414,000,000 from 1951 to 1962. In addition to these payments American citizens have made investments abroad to the extent of more than \$11,000,000,000 which upon the basis of a 6 per cent return would amount to more than \$600,000,000 a year that private American citizens are entitled to receive in interest and profits upon their investments in foreign countries. Thus, the total of payments due to America from foreign sources would amount to from \$850,000,000 to \$1,000,000,000 annually.

These critics have pointed out that in order to meet these obligations, it is necessary for foreign governments to secure American dollars, and this can only be accomplished by shipping gold or goods to the United States, or by rendering services in the form of shipping, etc., or by a continued increase in the amount of foreign borrowings from private American citizens. As a practical matter, this means that the larger portion of these annual payments must either be made in goods or that the United States must continue indefinitely to make extensive loans to

foreign governments. The only way in which these obligations can be permanently settled, according to many students of international trade, is to lower the tariff and be prepared to accept an "adverse" balance of trade.

EARLY STATE TARIFFS

Whatever may be the merit of this point of view, the early history of the United States before the adoption of the Federal Constitution should throw some light upon the present world situation. Under the Articles of Confederation no powers were conferred upon the Central government to prevent states from levying tariffs or excluding the goods of other states. As a result, the separate states engaged in tariff competition, and not only laid tariffs on goods passing across their boundaries, but in some extreme cases resorted to the absolute restriction of imports. The disordered state of American commerce under the Articles of Confederation is described by John Fisk as follows:

"The different states with their different tariff and tonnage acts began to make commercial war upon one another. No sooner had the other three New England states virtually closed their ports to British shipping than Connecticut threw hers wide open, an act which she followed up by levying duties on imports from Massachusetts. Pennsylvania discriminated against Delaware, and New Jersey, pillaged at once by both her great neighbors, was compared to a cask tapped at both ends. The conduct of New York became especially selfish and blameworthy and . . . of the thirteen states none behaved worse, except Rhode Island."

THE CONSTITUTION AND THE AMERICAN TARIFF

It was this condition of affairs (which is roughly comparable to the present situation in Europe) that was one of the important factors in the chain of events which resulted in the adoption of the Federal Constitution. The occasion for calling the Annapolis Convention of 1786, which in turn issued the call for the Constitutional Convention of 1787 was a dispute between Maryland and Virginia with respect to the navigation of the Potomac and certain important tariff questions between the two states. Delegates from five states met at Annapolis upon the invitation of Virginia to consider the commercial relations existing between the states.

Alexander Hamilton seized the opportunity offered by this occasion to secure the adoption of a recommendation advising the states to choose representatives for another convention to meet in Philadelphia the following year "to consider the Articles of Confederation and to propose such changes therein as might render them adequate to the exigencies of the Union."

TARIFF POWERS CONFERRED BY THE CONSTITUTION OF THE UNITED STATES

In order to avoid the tariff warfare which existed between the States under the Articles of Confederation, the fathers of the Constitution placed the power to impose tariffs exclusively in the hands of Congress under the following sections of the Constitution of the United States:

Article I, Section 8, places the power to impose tariffs exclusively in the hands of Congress by the following grant of power:

"The Congress shall have power to lay and collect taxes, duties, imposts and excises to pay the debts and provide for the common

defense, the general welfare of the United States, but all duties, imposts and excises shall be uniform throughout the United States;

"to regulate commerce with foreign nations, and among the several states and with the Indian tribes."

Article I, Section 9, provides "No preference shall be given by a regulation of commerce or revenue to the ports of one state over those of another, nor shall vessels bound to or from one state be obliged to enter, clear or pay duties in another."

Article I, Section 10, provides, "No state shall, without the consent of the Congress, lay any imposts or duties on imports or exports except what may be absolutely necessary for the execution of its inspection laws, and the net produce of all duties and imposts laid by any state on imports or exports shall be for the use of the Treasury of the United States, and all such laws shall be subject to the revision and the control of the Congress."

ANNEX

TEXT OF THE BANKERS' MANIFESTO

A Plea for the Removal of Restrictions Upon European Trade

We desire, as business men, to draw attention to certain grave and disquieting conditions which, in our judgment, are retarding the return to prosperity.

It is difficult to view without dismay the extent to which tariff barriers, special licenses and prohibitions since the war have been allowed to interfere with international trade and to prevent it from flowing in its natural channels. At no period in recent history has freedom from such restrictions been more needed to enable traders to adapt themselves to new and difficult conditions. And at no period have impediments to trading been more perilously multiplied without a true appreciation of the economic consequences involved.

The break-up of great political units in Europe dealt a heavy blow to international trade. Across large areas, in which the inhabitants had been allowed to exchange their products freely, a number of new frontiers were erected and jealously guarded by customs barriers. Old markets disappeared. Racial animosities were permitted to divide communities whose interests were inseparably connected. The situation is not unlike that which would be created if a confederation of States were to dissolve the ties which bind them and to proceed to penalize and hamper, instead of encouraging, each other's trade. Few will doubt that under

such conditions the prosperity of such a country would rapidly decline.

To mark and defend these new frontiers in Europe licenses, tariffs and prohibitions were imposed, with results which experience shows already to have been unfortunate for all concerned. One State lost its supplies of cheap food, another its supplies of cheap manufactures. Industries suffered for want of coal, factories for want of raw materials. Behind the customs barriers new local industries were started, with no real economic foundation, which could only be kept alive in the face of competition by raising the barriers higher still. Railway rates, dictated by political considerations, have made transit and freights difficult and costly. Prices have risen, artificial dearthness has been created. Production as a whole has been diminished. Credit has contracted and currencies have depreciated. Too many States, in pursuit of false ideals of national interest, have imperiled their own welfare and lost sight of the common interests of the world by basing their commercial relations on the economic folly which treats all trading as a form of war.

There can be no recovery in Europe till politicians in all territories, old and new, realize that trade is not war but a process of exchange, that in time of peace our neighbors are our customers,

and that their prosperity is a condition of our own well-being. If we check their dealings their power to pay their debts diminishes and their power to purchase our goods is reduced. Restricted imports involve restricted exports, and no nation can afford to lose its export trade. Dependent as we all are upon imports and exports, and upon the processes of international exchange, we cannot view without grave concern a policy which means the impoverishment of Europe.

Happily there are signs that opinion in all countries is awakening at last to the dangers ahead. The League of Nations and the International Chamber of Commerce have been laboring to reduce to a minimum all formalities, prohibitions and restrictions, to remove inequalities of treatment in other matters than tariffs, to facilitate the transport of passengers and goods. In some countries powerful

voices are pleading for the suspension of tariffs altogether. Others have suggested the conclusion for long periods of commercial agreements embodying in every case the most-favored-nation clause. Some States have recognized in recent treaties the necessity of freeing trade from the restrictions which depress it. And experience is slowly teaching others that the breaking down of the economic barriers between them may prove the surest remedy for the stagnation which exists.

On the valuable political results which might flow from such a policy, from the substitution of goodwill for ill-will, of cooperation for exclusiveness, we will not dwell. But we wish to place on record our conviction that the establishment of economic freedom is the best hope of restoring the commerce and the credit of the world.

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